



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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November 30, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *Wendy L. Watanabe*
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF CALIFORNIA INSTITUTE OF HEALTH AND
SOCIAL SERVICES (aka CHILDREN'S WAY FOSTER FAMILY
AGENCY) – A FOSTER CARE CONTRACTOR**

At the request of the Department of Children and Family Services (DCFS), we reviewed the fiscal operations of California Institute of Health and Social Services, also known as Children's Way Foster Family Agency (CWFFA or Agency), from December 1, 2007 through November 30, 2008. DCFS contracts with CWFFA to serve as a Foster Family Agency (FFA) to recruit, certify, train and support foster family homes. CWFFA has offices in the Fourth and Fifth Supervisorial Districts and in San Bernardino County.

At the time of our review, CWFFA had 241 children placed by Los Angeles County in 105 certified foster homes. DCFS paid the Agency between \$1,589 and \$1,865 per month for each foster child, for a total of \$3,008,003. CWFFA paid \$1,250,630 (42%) directly to the foster parents, which meets the State's minimum requirement.

The issuance of our report to your Board was delayed in part by changes in federal and State regulations regarding possible repayment of questioned costs from fiscal audits. To enable CWFFA to begin taking corrective action immediately, we discussed the findings and recommendations from our review with Agency management and DCFS on November 17, 2009.

Summary of Findings

We identified \$4,690 in unallowable costs and \$3,444 in unsupported/inadequately supported costs. In addition, DCFS and the Agency need to work together to resolve and collect overpayments.

CWFFA also needs to strengthen its controls over bank deposits, payroll/personnel records, independent contractors, and prepare and submit its Semi-Annual Expenditure Reports to DCFS as required by the FFA Contract. Details of our findings are discussed in Attachment I.

We have recommended that DCFS resolve the questioned costs and collect any disallowed amounts. DCFS should also ensure that CWFFA management takes action to address the recommendations in this report and monitor to ensure that the actions result in permanent changes.

Review of Report

We discussed our findings with CWFFA management and DCFS on November 17, 2009, but were unable to issue our final report to your Board due to changes in federal and State regulations. The Agency's response, which is incorporated into DCFS' Fiscal Corrective Action Plan (Attachment II), indicates the Agency's general agreement with our findings and recommendations. The Agency has also agreed to repay the unallowable and unsupported/inadequately supported costs in two payments. We thank CWFFA's management and staff for their cooperation during our review.

This audit is not intended to be, and does not constitute, the discovery or identification of an overpayment for purposes of the federal Improper Payments Act, related California State laws, including but not necessarily limited to Welfare and Institutions Code sections 11466.23, 11466.235, 11466.24, etc., nor State regulations intended to implement either the federal Improper Payments Act or related provisions in State law. This audit is intended solely to assist the County Department of Children and Family Services in managing its contractual relationships. Consequently, this report will be forwarded to the County Department of Children and Family Services in order that it might take further action, as it deems appropriate, based on its contents. Such further action may, or may not, include the discovery or identification of an overpayment for purposes of federal or State law.

Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MWM

Attachments

- c: William T Fujioka, Chief Executive Officer
- Patricia S. Ploehn, Director, Department of Children and Family Services
- Dr. William Marshall, Director, California Institute of Health and Social Services
- Board of Directors, California Institute of Health and Social Services
- Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services
- Commission for Children and Families
- Public Information Office
- Audit Committee

California Institute of Health and Social Services (aka Children's Way FFA)
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified \$4,690 in unallowable costs and \$3,444 in unsupported/inadequately supported costs. In addition, DCFS and the Agency need to work together to resolve potential overpayments. Details of these costs/overpayments are discussed below.

Applicable Regulations and Guidelines

CWFFA is required to operate its FFA in accordance with the following federal, State and County regulations and guidelines:

- FFA Contract, including the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular A-122)
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Costs

CWFFA incurred \$4,690 in unallowable expenditures, consisting of:

- \$3,471 in finance charges and late fees from credit cards, equipment rentals, gasoline, office supplies, telephone and utility bills.
- \$1,219 in non-sufficient fund (NSF) and overdraft fees.

Circular A-122 Sections 16 and 23 state that penalties and interest are unallowable costs.

Unsupported/Inadequately Supported Costs

A-C Handbook Section A.3.2 states that all expenditures shall be supported by original vouchers, invoices, receipts, or other supporting documents, and that unsupported expenditures will be disallowed upon audit. We identified \$3,444 in FFA expenditures that were either unsupported, or inadequately supported.

- \$2,012 in inadequately supported credit card charges. The Agency provided credit card statements, but no itemized receipts, or the receipts provided were inadequate to substantiate that the expenditures were FFA related.
- \$1,432 in inadequately supported expenditures involving insurance expense and employee payments. The Agency provided cancelled checks, but no receipts, or the receipts were inadequate to substantiate that the expenditures were FFA related.

Recommendations

1. DCFS management resolve the \$8,134 (\$4,690 + \$3,444) in questioned costs and collect any disallowed amounts.

CWFFA management:

2. Ensure that foster care funds are used for allowable expenditures to carry out the purpose and activities of the FFA program.
3. Maintain adequate supporting documentation for all Agency expenditures, including itemized invoices and receipts.

POTENTIAL DCFS OVERPAYMENTS

DCFS records show potential overpayments to CWFFA. DCFS and the Agency should work together to resolve the overpayments and DCFS should collect any verified overpayments. CWFFA management should also ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.

Recommendations

4. DCFS management work with CWFFA to resolve the overpayments and DCFS should collect any verified overpayments.
5. CWFFA management ensure that any future payment discrepancies are immediately reported to DCFS and any overpaid amounts are repaid promptly.

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted some contract compliance issues and internal control weaknesses. DCFS should ensure that CWFFA management takes action to address the recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

Untimely Deposits

CWFFA received 359 warrants from the County, totaling \$136,737, that were deposited into the Agency's bank account more than seven days after they were issued. One warrant was deposited 178 days later and another warrant was deposited 79 days after the issue date. A-C Handbook Section B.1.2 states that collections totaling \$500 or more shall be deposited within one day of receipt. Collections of less than \$500 may be held and secured, and deposited weekly or when the total reaches \$500, whichever occurs first.

To ensure that receipts are not lost or stolen, and improve cash flow, CWFFA should ensure that County warrants are deposited timely, and consider having County payments deposited electronically directly into the Agency's bank account.

Recommendation

- 6. CWFFA management ensure that Los Angeles County warrants are deposited timely, and consider having its County payments deposited electronically directly into the Agency's bank account.**

Payroll / Personnel Records

CDSS-MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including employee salary rates. In addition, A-C Handbook Section B.3.2 indicates that personnel records should also be maintained to document employee pay rates.

We reviewed the personnel files and payroll records of 12 employees and noted that 11 (92%) personnel files did not contain the employees' current authorized salary rates.

Recommendation

- 7. CWFFA management ensure personnel files contain current salaries/ hourly wages approved by management.**

Independent Contractors

A-C Handbook Section A.2.6 requires agencies to report payments to independent contractors to the federal and State governments. Our review of the Agency's independent contractors revealed that the Agency did not issue a Form 1099 to one contractor.

Recommendation

- 8. CWFFA management ensure that all payments to independent contractors are properly reported to the federal and State taxing agencies.**

Semi-Annual Expenditure Reports

FFA Contract Section 17 requires agencies to prepare and submit Semi-Annual Expenditure Reports to DCFS within 60 days after the end of each semi-annual reporting period.

CWFFA only submitted one Semi-Annual Expenditure Report to DCFS for Fiscal Year 2007-08. CWFFA should prepare and submit Semi-Annual Expenditure Reports for each semi-annual period as required by the FFA Contract.

Recommendation

- 9. CWFFA management prepare and submit Semi-Annual Expenditure Reports for each semi-annual period as required by the FFA Contract.**



PATRICIA S. PLOEHN, LCSW
Director

**County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

425 Shatto Place, Los Angeles, California 90020
(213) 351-5602

October 19, 2010

Dr. William Marshall, Executive Director
California Institute of Health and Social Services
8929 S. Sepulveda Blvd., #200
Los Angeles, CA 90045

Board of Supervisors
GLORIA MOLINA
First District
MARK RIDLEY-THOMAS
Second District
ZEV YAROSLAVSKY
Third District
DON KNABE
Fourth District
MICHAEL D. ANTONGVICH
Fifth District

Dear Dr. Marshall:

**AUDITOR-CONTROLLER'S FISCAL AUDIT REPORT ON CALIFORNIA INSTITUTE OF
HEALTH AND SOCIAL SERVICES - A FOSTER FAMILY AGENCY CONTRACTOR**

We have reviewed your fiscal corrective action plan (FCAP) in response to the Auditor Controller's fiscal audit report for the period of December 1, 2007 through November 30, 2008. The FCAP fully addresses the nine audit report recommendations (see Attachment III). In addition, the two recommendations directed to DCFS were fully addressed.

California Institute of Health and Social Services agreed to submit two checks drawn on non-foster care funds in the total amount of **\$8,134.00**. Please make your checks payable to **DCFS Cashier** and mail to:

Latisha Thompson, ASM III
Department of Children and Family Services
425 Shatto Place Rm. 304
Los Angeles, Ca. 90020

The Department requires that you identify the source of the funds from which payment will be made.

If you have any questions, please contact Ali Gomaa-Mersal of my staff at (213) 351-3209.

Sincerely,

A handwritten signature in blue ink that reads "Latisha Thompson".

Latisha Thompson, ASM III
Fiscal Monitoring and Special Payments

Attachments

c: Mike McWatters, Chief Audit Division (via electronic mail only)
Russell Lingo, Principal Accountant-Auditor (via electronic mail only)

"To Enrich Lives Through Effective and Caring Service"

**FISCAL REVIEW OF
CALIFORNIA INSTITUTE OF HEALTH AND SOCIAL SERVICES
(aka CHILDREN' WAY FOSTER FAMILY AGENCY)
- A FOSTER CARE CONTRACTOR**

Note: Department of Children and Family Services (DCFS) will only review documentation not previously provided to the Auditor-Controller.

Summary of Recommendations

Based on the FCAP submitted by California Institute of Health and Social Services, status of each recommendation is summarized as follows:

- 9 Recommendations (1-9) were fully addressed.
- 2 Recommendations (1&4) directed to the Department were addressed.

Recommendation Status

1. **DCFS management resolves \$8,134 (\$4,690 + \$3,444) in questioned costs and collect any disallowed amounts.**

Agency Proposed FCAP: The Agency will ensure that foster care funds are used for allowable expenditures to carry out the purposes and activities of the FFA program. Furthermore, the Agency will maintain adequate supporting documentation for all Agency expenditures, including itemized invoice and receipts.

The Agency will repay \$8,134.00 in identified cost (\$4,690.00 + \$3,444.00) in two installments.

DCFS Response: DCFS accepts the agency's response. DCFS requires that California Institute of Health and Social Services, as agreed to submit two checks drawn on non-foster care funds **in the amount of \$8,134.00**. The Department requires that you identify the source of the funds from which payments will be made. Please make your checks payable to **DCFS Cashier** and mail to:

Latisha Thompson, ASM III
Department of Children and Family Services
425 Shatto Place, Rm. 304
Los Angeles, CA 90020

2. **CWFFA management ensures that foster care funds are used for allowable expenditures to carry out the purpose and activities of the FFA program.**

Agency Proposed FCAP: The Board of Directors has implemented the policy that management will ensure that foster care funds are used for allowable expenditures to carry out the purpose and activities of the FFA Program. The CFO will ensure internal controls are implemented in compliance with OMB 122, the Auditor Controllers Handbook and general standard accounting practices. The procedure is defined the Board approved Fiscal Department Handbook.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

3. **CWFFA management maintain adequate supporting documentation for all Agency expenditures, including itemized invoices and receipts.**

Agency Proposed FCAP: The Board of Directors has implemented the policy that management will ensure that management maintains adequate supporting documentation for all Agency expenditures, including itemized invoices and receipts. The CFO will ensure internal controls are implemented in compliance with OMB 122, the Auditor Controllers Handbook and general standard accounting practices. The procedure is defined the Board approved Fiscal Department Handbook.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

4. **DCFS management work with CWFFA to resolve the overpayments and DCFS should collect any verified overpayments.**

Agency Proposed FCAP: The Agency has entered into a signed repayment agreement of \$1,600.00 per month effective July 1, 2010 for all identified overpayments. The Agency will prepare Covina 71's and submit to DCFS promptly. The Board of Directors has directed the CFO to ensure internal controls are implemented in compliance with the Auditors Controllers Handbook and DCFS Contract on reporting overpayments. The procedure is defined the Board approved Fiscal Department Handbook.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

5. **CWFFA management ensure that any future payment discrepancies are immediately reported to DCFS and any overpaid amounts are repaid promptly.**

Agency Proposed FCAP: The Agency will prepare Covina 71's and submit to DCFS promptly. The Board of Directors has directed the CFO to ensure internal controls are implemented in compliance with the Auditors Controllers Handbook and DCFS Contract on reporting overpayments. The procedure is defined the Board approved Fiscal Department Handbook.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

6. **CWFFA management ensure that Los Angeles County warrants are deposited timely, and consider having its County payments deposited electronically directly into the Agency's bank account.**

Agency Proposed FCAP: The Agency will ensure that all Los Angeles County warrants are deposited timely and has implemented direct deposit of warrants since April 2010.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

7. **CWFFA management ensures personnel files contain current salaries/ hourly wages approved by management.**

Agency Proposed FCAP: The Agency has developed an internal document to ensure all personnel files contain current salaries/hourly wages approved by management. All Agency personnel files contain salary/hourly wage data. The procedure is defined the Board approved Fiscal Department Handbook.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

8. **CWFFA management ensures that all payments to independent contractors are properly reported to the federal and State taxing agencies.**

Agency Proposed FCAP: The Agency will ensure that all payments to independent contractors are properly reported to the Federal and State taxing agencies. The procedure is defined the Board approved Fiscal Department Handbook.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

9. **CWFFA management prepare and submit Semi-Annual Expenditure Reports for each semi-annual period as required by the FFA Contract.**

Agency Proposed FCAP: The Agency will ensure the submission of Semi-Annual Expenditures for each semi-annual period as required by the FFA Contract. The procedure is defined the Board approved Fiscal Department Handbook.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.